

*Daily Market Note: August 28th 2023 by Larry Cheung, CFA*

Stable Jackson Hole meeting provides a window of opportunity for stocks to recover in final week of August

Forward-looking Conclusions of this note:

- Macro: Shrugging off NVDA's post-earnings fade and Jerome's Jackson Hole higher-for-longer rates narrative is quite constructive for markets in this final week of August.
- Stock-Specific: In confirmation inside Private Group Chat yesterday evening, we harvested tactical sector rotation profits from Hong-Kong Listed stocks 1347, 2318, 1299, 9988, and 9888. I now see further opportunity for sector rotation in other sectors (see beneath paywall).
- Bonds: Jackson Hole's stable outcome has stabilized TLT, but most importantly, it has caused Implied-Volatility crush in TLT out-of-the money options – pushing our options selling positions to now be in the 20-30% profit region.
- China: In the near-term, foreign investors have demonstrated incredibly fickle temperament for H-Shares on Hong Kong, but my DCF Models all point to higher levels for BABA/PDD/TCOM/EDU even using conservative estimates. Given that China ADRs are heavily influenced by SPY/QQQ, and the U.S. market is more stable at the moment, I believe ADRs will trade at a marginal premium relative to H-Share equivalents.

Daily Market Note & Context

My views on Macro are quite unchanged from last week after Jackson Hole. For that reason, in today's Daily Market Note, I'm going to discuss new opportunities and setups that I have on my radar as well as those I'm now pursuing.

Over the past 6 weeks, the U.S. Financials sector witnessed multiple negative catalysts such as downgrade ratings from Moody's and Fitch. This development will likely raise the cost of capital of doing business within Large Banks, and therefore lower their operating profit margins as they have to keep higher reserves for bad loan provisions. In the past, I've noted that Goldman Sachs was a Downside Target back in July when it traded 353 for a target of 345 or lower (it now trades 320+). My narrative call came to fruition as the Fed's hawkish language continued to elevate the 10Y Yield, and pressured Mortgage Rates higher and simultaneously straining the commercial real estate market (to which Goldman has a lot of exposure). However, my central belief is that stocks don't move in straight lines, and that every up cycle will be corrected and every downcycle will eventually see a relief bounce. I am not ready to call the Financials Sector to be a candidate for upside potential, but I do believe we have a window of time where the sector will stabilize and consolidate. This type of price action will be suitable for my Sell Puts strategy, and I will be doing the following: [Selling Put on Goldman Sachs 290 Strike \(October 6th 2023\) Expiry and HOLD the position for a 40-60% evaporation of the premium unless GS breaks below 305-308 in a violent manner in a very short period of time. If the stock drifts lower/chops around I am keeping the position.](#)

Let's now discuss the tech sector and opportunities I see brewing. Last week, we saw NVDA's earnings outcome cause a large sized sell event for AMD as investors are surrounded by the narrative that the only provider in AI technology is in NVDA, and AMD's AI products set to ship in 2024 is too late to the game. NVDA currently enjoys tremendous pricing power as they are one of the only providers in their specific suite of products to their major Data Center clients MSFT/GOOG/AMZN/etc. However, I do not believe Big Tech will bear NVDA's sky-high pricing of chips indefinitely (they will attempt to create their own to improve their corporate margins), and I also do not believe that AMD has missed the boat on A.I.

And then finally a word on Retail - we've seen the brunt of the pressure on retail earnings last week as the sector got eviscerated due to inventory shrink and consumer spending concerns. With Dicks Sporting Goods and Foot Locker wreaking havoc on the apparel industry, we now enter window of opportunity where the sector consolidates. Consolidation is perfect price action for my strategy on theta decay.

## Positioning Guidance

On Financials:

- Sell Put on Goldman Sachs Strike 290 with 45 Days Till Expiry 2023

On Technology

- Selling META Sept 29<sup>th</sup> Strike 250 – Light Size
- Selling AMD Oct 6<sup>th</sup> Strike 90s – Light Size
- Selling AMD Jan 2024 Strike 75s – Moderate Size
- Selling AMZN Jan 2024 Strike 107.5s - Light Size
- Selling ORCL Jan 2024 Strike 100s – Light Size

On Retail

- Selling NKE Jan 2024 Strike 82.5s - Moderate Size
- Repositioned Direct Shares from DLTR into Jan 2024 Strike 105s (discussed last week) - Moderate Size

On China

- Selling BABA Jan 2024 Strike 70s – Light Size
- Selling BABA Jan 2024 Strike 75s – Moderate Size

Other Updates:

- [Previous Ideas TXN Sept 2023](#) 155 Strike has now seen 55% of the option evaporate in value. Will be looking for exits on this soon.
- [Previous Idea PDD Sept 2023](#) 71 Strike has now seen 22% of the option evaporate in value. Will wait a bit longer on this one.
- Japanese Yen ETF FXY – I have a Direct Share position in FXY in moderate size. Currently down 3-4% from cost basis 65.5. Will hold as I think it is in the best interest of the Bank of Japan to not let their currency enter oblivion.
- Our TLT Put position is now doing well (despite TLT having gone nowhere). Will guide if I intend to take profits.

Kind Reminder: I will do my best to keep you as updated on my research, ideas, and setups. I cannot take any 1:1 questions related to individual positioning or guide on individual transactions. My work here is solely an expression of my personal journaling, but must not be treated as formal financial advice.

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